

**EMPLOYEES' RETIREMENT SYSTEM  
OF THE COUNTY OF MILWAUKEE**

**Statement of Investment Policy**

**January 2006**

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## INTRODUCTION

The investment objective of the Pension Board is to maximize fund returns with an appropriate level of risk which, in combination with contributions receivable, are sufficient for the Fund to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the Fund's costs at a reasonable level. The Pension Board's principal means to achieve this goal is by (a) determining an asset allocation policy which is expected to provide the long-term rate of return sufficient to fund benefits while minimizing the risk of loss through diversification, and is expected to result in the Fund meeting the Total Fund Objectives indicated herein, (b) selecting an appropriate number of investment managers to manage the assets within an asset class, and monitoring the performance of such investment managers relative to specified benchmarks and (c) implementing cost containment measures intended to reduce the investment fees and costs associated with investing the Fund's assets.

The Pension Board of the Employees' Retirement System of the County of Milwaukee (the "Fund"), working with Mercer Investment Consulting, Inc. ("Mercer"), has developed the following policies, objectives and guidelines for the ongoing management and evaluation of the Fund's investment program.

This Statement of Investment Policy, as of January 2006, serves the following purposes:

- Provides a written document of the Pension Boards' expectations regarding the Fund investment program.
- Establishes objectives and guidelines for the investment of the assets that are consistent with the Fund's financial- and benefits-related goals.
- Outlines criteria and procedures for the ongoing evaluation of the investment program.
- Provides a communication vehicle for the investment managers.

This statement is intended to be dynamic in nature and will be updated and revised on an annual basis to reflect the Pension Boards' current investment program goals.

This statement supersedes all previously adopted statements of investment policy. Sections 201.24 and 203 of the General Ordinances of Milwaukee County (attached as Appendix B (Tab 8) of this Statement of Investment Policy) will supersede this Statement of Investment Policy whenever sections 201.24 and 203 of the Ordinance and the Investment Policy are in conflict. Investment managers retained by the Pension Board will comply with the principles outlined in Appendix C (Tab 9) of the Statement of Investment Policy.

## ASSET ALLOCATION

The asset allocation policy developed herein is based on an evaluation of the Fund's ability to assume investment risk in its pension assets in light of its financial and benefit-related goals and objectives, and the Fund's liability structure. In establishing this policy, the safety and integrity of benefits received by Plan beneficiaries has received special attention.

In arriving at the current asset allocation policy, the Pension Board, working with Mercer, evaluated the following factors:

- The Fund's actuarial methods and assumptions covering the benefits structure and long-term goals as described in recent asset/liability modeling studies.
- Key elements of investment theory.
- Historical and prospective risk and return characteristics associated with various asset classes and investment management styles.
- Diversification benefits derived from combining disparate asset classes.

Based on an analysis of the above factors, the Pension Board has determined that the following asset allocation policy is currently appropriate for the Fund. This asset allocation policy will be reviewed annually and may be modified, if appropriate, in light of changes in the structure or goals of the Fund.

### Asset Allocation Policy

The following asset allocations are meant to apply to the actual realized asset class allocations as opposed to the allocations among manager types.

		<b><u>Normal Policy</u></b>	<b><u>Minimum Holding</u></b>	<b><u>Maximum Holding</u></b>
<b>EQUITY</b>	<b>Domestic</b>			
	Large Capitalization	20%	17%	25%
	Small Cap	5%	3%	6.5%
	Mid Cap	6%	4%	7.5%
	Venture Capital	3%	0%	5%
	<b>International</b>	16%	11%	21%
	<b>Int'l Small Cap</b>	4%	0%	7%
	<b>Total Equity</b>	<b><u>54%</u></b>	<b><u>37%</u></b>	<b><u>74%</u></b>
<b>FIXED INCOME</b>	Core Fixed Income	35%	31%	41%
	High Yield Fixed Income	7%	5%	9%
	Cash Equivalents	1%	0%	5%
	<b>Total Fixed Income</b>	<b><u>43%</u></b>	<b><u>34%</u></b>	<b><u>55%</u></b>
<b>REAL ESTATE</b>	Public	3%	0%	7.5%
<b><u>TOTAL</u></b>		<b><u>100%</u></b>		

## **Comments on Asset Allocation Policy**

- On a semi-annual basis, the Investment Consultant will compare the Fund's asset allocation to the investment policy guidelines. At the regularly scheduled meeting, the Investment Consultant will inform the Pension Board of the asset allocation, and will notify the Pension Board if there is a deviation from the Investment Policy guidelines. If, however, the Investment Consultant believes the investment guideline violation warrants immediate attention by the Pension Board, the Investment Consultant may inform the Pension Board prior to the regularly scheduled meeting. Should the realized asset class allocation (as opposed to the allocation among manager types) deviate from policy, the Pension Board will consider asset re-allocation (so as to achieve guideline compliance) at the next appropriate meeting.
- In order to allow the Fund an opportunity to maximize its funded status over time and, thus, increase long-run benefit security, a meaningful commitment (54%) has been made to the equity sector.
- To further improve equity diversification benefits, approximately 36% of the domestic equity commitment will be allocated to small-to-mid capitalization stocks. The current domestic equity commitment has a policy allocation of 36%. Consequently, 13% (or 36% of 36%) is the target allocation for small-to-mid capitalization stocks.
- Approximately 43% of Total Fund assets will be allocated to core fixed income in order to optimize the overall structure of the Fund and provide a more consistent income stream.
- A commitment of 3% of Total Fund assets will be allocated to the real estate sector to improve the risk posture of the overall Fund and provide a further inflation buffer.
- A commitment of 20% has been assigned to international equities. This commitment includes a 16% allocation to core international equities and a 4% allocation to small capitalization international equities. This reflects the Pension Boards' goal of further diversifying the equity portfolio.
- Consistent with fiduciary responsibilities, and within the general objectives relating to portfolio return, risk, and diversification, it is desirable to focus attention on the needs of Milwaukee County. Therefore, the Pension Board will give consideration to investment in asset classes that benefit citizens and organizations located in Milwaukee County and to minority and female-owned investment organizations.
- The Pension Board will from time to time evaluate alternative asset-mix policies using asset/liability modeling techniques. After completing these studies and discussing the alternative asset mixes, the Pension Board will agree on an asset-mix. If future conditions deviate significantly from the range of expectations anticipated at the time of the relevant asset/liability study, the Pension Board may direct, or the investment consultant may recommend, that this study be updated.

## INVESTMENT MANAGEMENT STRUCTURE

The Pension Board has determined that the following investment management structure is the most appropriate at this time, given current circumstances, to implement the Fund's current asset allocation policy.

<b><u>Fund Orientation</u></b>	<b><u>Number of Managers<sup>1</sup></u></b>
Indexed Large Capitalization Domestic Equities	2
Active Large Capitalization Domestic Equities	1
Active Mid Capitalization Core Domestic Equities	2
Active Mid Capitalization Value Domestic Equities	1
Active Mid Capitalization Growth Domestic Equities	1
Active Small Capitalization Domestic Equities	2
Core International Equity	2
Small Capitalization International Equity	1
Venture Capital Equity	3
Index Core Fixed Income	1
Active Core Fixed Income	2
High Yield Fixed Income	1
Cash Equivalents	1
Real Estate	1
<b>TOTAL</b>	<b>21</b>

<sup>1</sup> The Fund is invested in 21 products, managed by 15 investment managers.

The Managers selected by the Pension Board are as follows:

**Indexed Large Capitalization Domestic Equities**

Core: Mellon Capital S&P 500 Index  
Growth: Mellon Capital Russell 1000 Growth Index

**Active Large Capitalization Domestic Equities**

Value: Boston Partners

**Active Mid Capitalization Core Domestic Equities**

EARNEST Partners  
Reinhart & Mahoney

**Active Mid Capitalization Value Domestic Equities**

Hotchkis & Wiley

**Active Mid Capitalization Growth Domestic Equities**

Artisan Partners

**Active Small Capitalization Domestic Equities**

Value: Ariel Capital  
Growth: Westfield Capital

**Venture Capital Equity**

Adams Street Partners  
Progress Investment

**Core International Equities**

Capital Guardian  
Grantham Mayo

**Small Capitalization International Equities**

Capital Guardian

**Indexed Core Fixed Income**

Mellon Capital

**Active Core Fixed Income**

Loomis Sayles - Investment Grade  
J.P. Morgan Investment Management (JPMIM)

**High Yield Fixed Income**

Loomis Sayles - High-Yield Corporate

**Cash Equivalents**

Mellon Capital

**Real Estate**

ING Clarion Real Estate Securities

## **Comments on Investment Management Structure**

- The Pension Board has delegated equity investment management responsibility to the following managers: Ariel Capital, Artisan Partners, Boston Partners, Capital Guardian, EARNEST Partners, Hotchkis & Wiley, Grantham Mayo, Reinhart & Mahoney, Westfield Capital and Mellon Capital. Responsibility for venture capital investments has been delegated to Adams Street Partners and Progress Investment. Responsibility for fixed income investments has been delegated to JP Morgan, Loomis Sayles and Mellon Capital. Responsibility for Real Estate has been delegated to ING Clarion.
- In order to allow the Fund to diversify effectively by asset class and management organization, a multiple manager structure will be utilized. This structure will also serve to limit the impact of any single manager on the Total Fund.
- An index fund manager is utilized to replicate (either stock-by-stock or based on characteristics) the Standard & Poor's 500 Equity Index, the Russell 1000 Growth Index and Lehman Brothers Aggregate Index.
- Six active managers are retained for the active small and mid capitalization equity allocation in order to add value in this less efficient sector of the market. Similarly, two active managers are retained for the active small and mid capitalization equity allocation, and three active fixed-income managers are used.
- The precise dollar allocation among managers in a particular category will be determined by the Pension Board and may be modified at their discretion.

## **Responsibilities of the Investment Managers**

Each investment manager will have the following responsibilities, including those specified in the Investment Advisory Agreement.

- Managing the portion of the Fund assets under its control in accordance with the policy objectives and guidelines included herein and in accordance with generally accepted prudence standards.
- Complying with any applicable legislative or regulatory stipulations, including Chapter 201.24 of the General Ordinances of Milwaukee County, as well as Section 203 (OBRA). Appendix B provides additional information on the Ordinances, as well as how to obtain a copy of this information.
- Exercising full investment discretion within the policies and standards included herein with respect to buy, hold and sell decisions for all assets under management.



- Promptly informing the Pension Board and/or their designated agents regarding significant matters pertaining to the investment of Fund assets. This includes, at a minimum, the following:
  - Monthly portfolio asset and transaction statements.
  - Substantive changes in investment strategy and portfolio structure.
  - Substantive changes in ownership, organizational structure, financial condition or professional staffing.
- Providing input as appropriate regarding progress toward the specific objectives developed herein, as well as suggestions as to possible modifications of the investment objectives.

## **INVESTMENT OBJECTIVES AND GUIDELINES**

The Pension Board expects to receive results from the investment managers that are consistent with the policies included herein. The following sections outline the specific objectives and guidelines established for each asset and management category. These objectives and guidelines will provide a basis for evaluating the effectiveness of each investment manager and the overall investment program over time.

### **Rebalancing and Liquidity Requirements**

In order to maintain the established target asset allocation, the Pension Board has determined that a specific rebalancing procedure is necessary. The Pension Board has also determined that this procedure should coincide with the liquidity requirements of the Fund so as to limit the amount of required liquidations and associated transaction costs. As the Fund benefit payouts are known with a high level of confidence at least a month in advance, the procedure can be determined fairly accurately. This will allow the Investment Managers to receive sufficient notice about required liquidations and avoid forcing quick sales or high transaction costs.

- At the start of each calendar year, the Pension Board Staff will present a monthly cash forecast for the coming year. This forecast will be maintained and revised, as required, and resubmitted at each Pension Board meetings following the quarter end.
- At each Pension Board meeting following the quarter end, as part of the regular quarterly performance report, Mercer will present a prioritized schedule of the categories and managers that will either receive cash for investment or will provide drawdown during the current quarter. Any additional rebalancing required to bring the asset allocation within the target ranges set will also be discussed at this time. In preparing this schedule, Mercer will consider the relative under/overweighting of the manager portfolios, and the need to contain transaction costs as far as possible.
- The Pension Board will agree on the rebalancing and liquidity action needed and Pension Board Staff, assisted by Mercer, will facilitate the transactions. Authority to instruct Investment Managers to carryout the agreed transactions on behalf of the Pension Board will be granted by the Chairman and the Pension Board Staff.
- Liquidity requirements, for covering Fund expenses and benefit payments, will be addressed by transfers from the cash account at the custodian bank. In order to help meet the cash needs of the Fund and to minimize the need for asset transactions, all interest income and dividends will be transferred from the Investment Managers' accounts to the cash account as they are received.

## **Prohibited Transactions**

- No assets shall be invested in restricted (letter) stock or in private placements. This restriction is not meant to preclude purchases of securities issued under SEC Rule 144a. Rule 144a allows trading among qualified institutional investors within a segment of the private placement market. This restriction is not meant to preclude purchases of private placement commercial paper of adequate quality by the Cash Equivalents manager. Furthermore, this restriction does not apply to the venture capital equity managers – Adams Street Partners and Progress Investments – and the collective or commingled fund managers.
- No assets shall be committed to short-sale contracts. This restriction is not meant to preclude Adams Street Partners or Progress from utilizing short sale contracts as a hedge against stock that is already owned but not yet distributed.
- No assets shall be committed to complex derivative structures including, but not limited to: options, futures, swaps, inverse floating rate notes, leveraged floaters, defined range floating rate notes, trigger notes, step up notes, interest only strips (IOs) and principal only strips (PO's).
- This prohibition against futures contracts does not apply to the Indexed Equity or Fixed Income portfolios managed by Mellon Capital. Furthermore, the international equity managers are allowed to utilize futures contracts to engage in hedging for defensive purposes only. Utilization of such contracts for speculative purposes is not allowed.
- With the exception of the assets managed by the international equity managers and the index equity manager, no assets shall be committed to foreign equity securities trading on foreign exchanges unless approved by the Pension Board. This exclusion does not apply to foreign equity securities which are both denominated in U.S. Dollars and traded in the U.S., as long as their proportion of any specific portfolio does not exceed 10% as measured by market value.
- No assets shall be committed to foreign debt securities. This prohibition does not apply to foreign debt securities which are both denominated in U.S. Dollars and traded in the U.S., so long as their proportion of any specific portfolio does not exceed 15% (this maximum percentage holding is raised to 50% for the cash equivalents managers) as measured by market value.

## **Compliance with Investment Policy Guidelines and Objectives**

- The Investment Managers are charged with the responsibility of maintaining their portfolios in compliance with the investment guidelines. Each Investment Manager is also responsible for monitoring the portfolio and reporting a deviation from the guidelines to the Pension Board and its Investment Consultant within 60 days after the deviation occurs. At the Pension Board's request, an Investment Manager will explain its failure to meet the guidelines and suggest corrective action. Within 90 days after receiving notification of a deviation from the investment policy guidelines, the Board will determine if the manager will be required to buy or sell securities to correct the deviation. Depending upon the circumstances, the consequences of deviating from the investment policy guidelines could range from an investment manager merely explaining its reasons for the deviation to the manager's termination.

## **Policy if Investment Manager Underperforms its Benchmark**

- If a large capitalization equity manager, a mid capitalization, a small capitalization equity manager or a fixed income manager involved in active management underperforms its index fund benchmark over a rolling three-year period, the performance of the investment manager will be reviewed by the Board and the reasons for the underperformance will be noted in the meeting minutes. The manager will be asked to address any questions the Board may have concerning its performance.
- If an active equity or fixed income manager underperforms its benchmark over a rolling five-year period, the Board will prepare and scrutinize detailed data on the manager's organization, their investment processes, and the current portfolio structure. The key decision makers responsible for the management of the assets may be asked to attend a Board meeting to address any questions from the Board.
- If an active equity or fixed income manager underperforms its benchmark over a rolling seven-year period, the Board will again prepare and scrutinize detailed data on the manager's organization, their investment processes, and the current portfolio structure. The key decision makers responsible for the management of the assets may be asked to formally present their capabilities to the Board and the Board shall make a decision on the manager's continued suitability for the allocation held. .

Notwithstanding the above, while the relationship with any Investment Manager is expected to continue, the Board reserves the right to terminate its relationship with any retained Investment Manager at any time. In addition, the Board reserves the right to remove assets, in part, from any manager.

## Total Fund Objectives and Guidelines

### Investment Objectives:

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group <sup>1</sup>		
One market cycle (approx. 4-6 years).	Rank in upper 40% of a Peer Group. <sup>1</sup>	Exceed the return on a benchmark Index by 1%. <sup>2</sup> Have volatility of quarterly returns less than that of a benchmark Index. <sup>2</sup>	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 4%

### Investment Guidelines:

- The investment guidelines governing each asset class/manager will together constitute the Total Fund guidelines.
- The Fund as a whole will conform to the Statutory requirements outlined in Chapter 201.24 of the General Ordinances of Milwaukee County, as well as Section 203 (OBRA).
- The Pension Board is responsible for the overall asset allocation of the Fund. Each manager will be responsible for adhering to the guidelines for its portion of Fund assets only.

<sup>1</sup> As measured by the Mercer Universe of funds with an asset-mix similar to that of the Fund.

<sup>2</sup> The Reference Index consists of the following:

	S&P 500 Index	Wilshire 4500 Index	Russell 2000 Index	MSCI EAFE Index	MSCI Wld Ex. US SC Index	MSCI Emg Markets Index	LB Aggregate	LB G/C Index	LB Long G/C Index	Merrill Lynch HY Index	90-Day T-Bill	Wilshire REIT Index	Mercer RE Median
11/1/2005 - Forward	20%	14%	0%	16%	4%	0%	35%	0%	0%	7%	1%	3%	0%
7/1/2001 - 10/31/2005	23%	16%	0%	13%	2%	0%	32%	0%	0%	10%	1%	3%	0%
7/1/2000 - 6/30/2001	23%	16%	0%	10%	3%	2%	32%	0%	0%	10%	1%	3%	0%
7/1/1999 - 6/30/2000	23%	0%	16%	10%	3%	2%	32%	0%	0%	10%	1%	0%	3%
1/1/1998 - 6/30/1999	23%	0%	16%	10%	3%	2%	0%	23%	9%	10%	1%	0%	3%
Inception - 12/31/1997	27%	0%	13%	10%	0%	0%	27%	9%	0%	10%	1%	0%	3%

## **Indexed Large Capitalization Domestic Equities**

### **Objectives and Guidelines**

**Manager:** *Mellon Capital*

#### **Investment Objectives** -- S&P 500 Portfolio

- Performance will be measured against the S&P 500.
- Performance should not fall below the index by more than:
  1. 0.50% during any specific calendar year,
  2. 0.35% (annualized) over any two-year calendar period,
  3. 0.30% (annualized) over any three-year calendar period,
  4. 0.20% (annualized) over any five-year calendar period.

## **Indexed Large Capitalization Growth Domestic Equities**

### **Objectives and Guidelines**

**Manager:** *Mellon Capital*

#### **Investment Objectives – Russell 1000 Growth Portfolio**

- Performance will be measured against the Russell 1000 Growth.
- Performance should not fall below the index by more than:
  1. 0.50% during any specific calendar year,
  2. 0.35% (annualized) over any two-year calendar period,
  3. 0.30% (annualized) over any three-year calendar period,
  4. 0.20% (annualized) over any five-year calendar period.

## Active Large Capitalization Domestic Equities Objectives and Guidelines

**Managers:** *Value - Boston Partners*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group <sup>1</sup>	Exceed (after fees) the return on a style-specific benchmark Index + 1%. <sup>3</sup>	
One market cycle (approx. 4-6 years).	Rank in upper 45% of a broad equity manager Universe. <sup>2</sup>	Exceed (after fees) the return on the S&P 500 Stock Index + 1%.	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 6.5%

### **Investment Guidelines:**

- Appropriate investments consist primarily of common stocks and/or convertible securities. However, cash equivalents and/or fixed income securities may be used at the manager's discretion.
- Holdings in any one company should not exceed the greater of 5% of the portfolio or 3% over the Index weighting, measured at market value.
- No individual economic sector, as defined by Standard and Poor's, shall represent more than the lesser of 30% of the portfolio or 150% of the index weighting at market value.
- The manager should structure the portfolio to result in a volatility lower than that of the Russell 1000 Value Index over a 1-3 year period (as measured by the standard deviation of quarterly returns).
- Each manager is expected to maintain a fully invested position at all times with no more than 5% of the portfolio in fixed income or cash equivalents. If a manager believes that a deviation from this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Pension Board.

<sup>1</sup> As measured by the Mercer Large Cap Value Equity Peer Group.

<sup>2</sup> As measured by the Mercer Equity Universe.

<sup>3</sup> As measured by the Russell 1000 Value Index.



## Active Mid Capitalization Core Domestic Equities Objectives and Guidelines

**Managers:**    *EARNEST Partners*  
                      *Reinhart & Mahoney*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group. <sup>1</sup>	Exceed (after fees) a benchmark Index. <sup>2</sup>	
One market cycle (approx. 4-6 years).	Rank in upper 40% of a Peer Group. <sup>1</sup>	Exceed (after fees) a benchmark Index. <sup>2</sup>	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 5.7%

### **Investment Guidelines:**

- Appropriate investments consist of common stocks and cash equivalents.
- Equity holdings in any one company should not exceed 8% of the portfolio measured at market value.
- Each manager is expected to maintain a fully invested position with no more than 15% of the portfolio in fixed income instruments. If a manager believes that a deviation from this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Pension Board.

<sup>1</sup> Mercer Mid Capitalization Equity Peer Group

<sup>2</sup> As of March 1, 2005: Russell MidCap + 1% for EARNEST Partners, S&P 400 for Reinhart & Mahoney. April 1, 1999 to February 28, 2005: S&P MidCap + 2%. Prior to April 1, 1999: Wilshire 4500 + 2%

## Active Mid Capitalization Value Domestic Equities Objectives and Guidelines

**Managers:** *Hotchkis & Wiley*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group. <sup>1</sup>	Exceed (after fees) a benchmark Index. <sup>2</sup>	
One market cycle (approx. 4-6 years).	Rank in upper 40% of a Peer Group. <sup>1</sup>	Exceed (after fees) a benchmark Index. <sup>2</sup>	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 5.7%

### **Investment Guidelines:**

- Appropriate investments consist of common stocks and cash equivalents.
- Equity holdings in any one company should not exceed 8% of the portfolio measured at market value.
- Each manager is expected to maintain a fully invested position with no more than 15% of the portfolio in fixed income instruments. If a manager believes that a deviation from this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Pension Board.

<sup>1</sup> Mercer Mid Capitalization Value Equity Peer Group

<sup>2</sup> As of March 1, 2005: Russell MidCap Value + 1%

## Active Mid Capitalization Growth Domestic Equities Objectives and Guidelines

**Managers:** *Artisan Partners*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group. <sup>1</sup>		
One market cycle (approx. 4-6 years).	Rank in upper 40% of a Peer Group. <sup>1</sup>	Exceed (after fees) a benchmark Index. <sup>2</sup>	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 5.7%

### **Investment Guidelines:**

- Appropriate investments consist of common stocks and cash equivalents.
- Equity holdings in any one company should not exceed 8% of the portfolio, measured at market value.
- Each manager is expected to maintain a fully invested position with no more than 15% of the portfolio in fixed income instruments. If a manager believes that a deviation from this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Pension Board.

<sup>1</sup> Mercer Mid Capitalization Growth Equity Peer Group

<sup>2</sup> As of August 1, 2005, Russell Mid Cap Growth + 1%. Prior to August 1, 2005, Russell Mid Cap Growth.

## Active Small Capitalization Value Domestic Equities Objectives and Guidelines

**Managers:** *Ariel Capital*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group <sup>1</sup>	Exceed (after fees) the return on a style-specific benchmark Index. <sup>2</sup>	
One market cycle (approx. 4-6 years).	Rank in upper 40% of a Peer Group. <sup>1</sup>	Exceed (after fees) a benchmark Index. <sup>3</sup>	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 5.9%

### **Investment Guidelines:**

- Appropriate investments consist of common stocks and cash equivalents.
- Equity holdings in any one company should not exceed the 8% of the portfolio, measured at market value.
- Holdings in one industrial sector should not exceed the greater of 30% of the portfolio or 150% of the Index weighting, measured at market value.
- Each manager is expected to maintain a fully invested position with no more than 15% of the portfolio in fixed income instruments. If a manager believes that a deviation from this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Pension Board.

<sup>1</sup> Mercer Small Capitalization Value Equity Peer Group

<sup>2</sup> Russell 2500 Value Index

<sup>3</sup> Russell 2500 + 2%

## Active Small Capitalization Growth Domestic Equities Objectives and Guidelines

**Managers:** *Westfield Capital*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group <sup>1</sup>	Exceed (after fees) the return on a style-specific benchmark Index <sup>3</sup>	
One market cycle (approx. 4-6 years).	Rank in upper 40% of a Peer Group. <sup>1</sup>	Exceed (after fees) a benchmark Index. <sup>2</sup>	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 5.9%

### **Investment Guidelines:**

- Appropriate investments consist of common stocks and cash equivalents.
- Equity holdings in any one company should not exceed the 8% of the portfolio, measured at market value.
- Holdings in one industrial sector should not exceed the greater of 30% of the portfolio or 150% of the Index weighting, measured at market value.
- The manager is expected to maintain a fully invested position with no more than 15% of the portfolio in fixed income instruments. If a manager believes that a deviation from this guideline is in the interest of the Fund, the manager should bring this recommendation immediately to the attention of the Pension Board.

<sup>1</sup> Mercer Small Capitalization Growth Equity Peer Group

<sup>2</sup> Russell 2000 Growth Index

## Core International Equity Objectives and Guidelines

**Managers:** *Capital Guardian*  
*Grantham Mayo*

### **Investment Objectives:**

Time Horizon	Performance Standard <sup>1</sup>		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Universe <sup>2</sup>		
One market cycle (approx. 4-6 years).	Rank in upper 40% of a Universe. <sup>2</sup>	Exceed (after fees) the EAFE Index + 1%.	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 6.7%

### **Investment Guidelines:**

- The market equity portfolio risk level should not exceed 125% of the overall risk of the market (as measured against the EAFE index). This guideline does not apply to the separately managed Capital Guardian account.
- An individual issue should be limited to no more than 5% of the market value of the portfolio at time of purchase. This restriction does not apply to collective or commingled funds governed by applicable trust document or prospectus.
- Adequate diversification by sector, country, and currency block should be maintained.
- Appropriate investments consist primarily of common stocks; however, cash equivalents and/or fixed income securities may be used at the manager's discretion subject to the guideline noted above.
- Retained investment management should assure itself of the appropriateness of any individual investment.
- A maximum of 20% of each portfolio may be invested in the manager's emerging markets commingled or collective fund. Where a commingled or collective fund is utilized, the fund is governed by the applicable trust document or prospectus.

<sup>1</sup> All performance comparisons will be made after the conversion back into U.S. dollars.

<sup>2</sup> The Mercer International Equity Universe.

## Small Capitalization International Equity Objectives and Guidelines

**Manager:** *Capital Guardian*

### **Investment Objectives:**

Time Horizon	Performance Standard <sup>1</sup>		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group. <sup>2</sup>		
One market cycle (approx. 4-6 years).	Rank in upper 40% of a Peer Group. <sup>2</sup>	Exceed (after fees) the benchmark Index + 1%. <sup>3</sup>	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 6.9%

### **Investment Guidelines:**

- The market equity portfolio risk level should not exceed 125% of the overall risk of the market (as measured against the benchmark index).
- An individual issue should be limited to no more than 5% of the market value of the portfolio at time of purchase.
- Adequate diversification by sector, country and currency block should be maintained.
- Appropriate investments consist primarily of common stocks; however, cash equivalents and/or fixed income securities may be used at the manager's discretion subject to the guideline noted above.
- Retained investment management should assure itself of the appropriateness of any individual investment.

<sup>1</sup> All performance comparisons will be made after the conversion back into U.S. dollars.

<sup>2</sup> The Mercer International Equity Small Capitalization Peer Group.

<sup>3</sup> The MSCI World Ex US Small Cap Index + 1%.

## Private Equity Objectives and Guidelines

**Managers:**    *Adams Street Partners*  
                          *Progress*

### **Investment Objectives:**

Time Horizon	Performance Standard <sup>1</sup>		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
One market cycle (approx. 12-15 years).		A 16% annualized rate of return	

### **Investment Guidelines:**

- Private equity investments should be made primarily through closed-end private equity funds.
- Adequate diversification by private equity subclass (venture capital, buyout, mezzanine, distressed debt, special situation, and non-U.S.) should be maintained.
- New investments in private equity funds should not exceed 10% of the normal policy allocation to private equity. This normal policy weight now stands at 3%. Therefore, new investments in private equity should not exceed 0.30% (10% X 3%) of the Total Fund value.
- Adams Street Partners and Progress will execute for the Fund any and all documents pertaining to private equity limited partnership investments, including, but not limited to, private equity limited partnership agreements, private equity limited partnership subscriptions agreements and amendments to said agreements.

<sup>1</sup> All performance comparisons will be made after the conversion back into U.S. dollars.



## **Indexed Core Fixed Income Objectives and Guidelines**

**Manager:** *Mellon Capital*

### **Investment Objectives -- Lehman Brothers Aggregate Portfolio**

- Performance will be measured against the Lehman Brothers Aggregate Index.
- Performance should not fall below the index by more than:
  1. 1.00% during any specific calendar year,
  2. 0.75% (annualized) over any two-year calendar period,
  3. 0.60% (annualized) over any three-year calendar period,
  4. 0.45% (annualized) over any five-year calendar period.

## Core Investment Grade Fixed Income Objectives and Guidelines

**Managers:**     *Loomis Sayles - Investment Grade*  
                               *J.P. Morgan Investment Inc. (JPMIM)*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group <sup>1</sup>		
One market cycle (approx. 4-6 years).	Rank in upper 40% of a broad fixed income manager Universe. <sup>2</sup>	Exceed (after fees) the benchmark Index. <sup>3</sup>	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 2.6%

### **Investment Guidelines:**

- Appropriate investments consist of marketable debt securities including U.S. Treasuries and U.S. Federal Government Agencies, mortgages, corporates, money market instruments and other fixed income securities as deemed appropriate by the manager. For Loomis Sayles, up to 25% of the portfolio at market value may be invested in foreign securities.
- Bonds purchased or owned in each portfolio must have a minimum quality rating of Baa3 (Moody's) or BBB- (Standard & Poor's/Fitch). The average quality of each portfolio must be A or better. Unrated U.S. Treasury and U.S. Federal Government Agency securities are permissible and will be treated as AAA rated for purposes of average quality calculations.
- Individual security holdings (excluding cash equivalents and fixed income issues either issued or guaranteed by the U.S. Federal Government or one of its agencies) should not exceed 5% of the portfolio, measured at market value at the time of purchase into a specific portfolio.

<sup>1</sup> As measured by the Mercer Core Investment Grade Fixed Income Peer Group.

<sup>2</sup> As measured by the Mercer Fixed Income Universe

<sup>3</sup> For JPMIM: As of November 1, 2005, Lehman Brothers Aggregate Index + 0.5%.  
 For Loomis Sayles and Stein Roe: As of July 1, 1999, Lehman Brothers Aggregate Index + 0.5%. Prior to July 1, 1999, an Index composed of 50% Lehman Brothers Government/Corporate Index and 50% Lehman Brothers Long-Term Government/Corporate Bond Index + 0.5%.

## High Yield Fixed Income Objectives and Guidelines

**Manager:** *Loomis Sayles - High Yield*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Less than one market cycle (approx. 1-3 years).	Rank in upper 50% of a Peer Group <sup>1</sup>		
One market cycle (approx. 4-6 years).	Rank in upper 40% of a broad fixed income manager Universe. <sup>2</sup>	Exceed (after fees) the Merrill Lynch High Yield Master Index + 1.5%.	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI +5%

### **Investment Guidelines:**

- Appropriate investments consist of marketable debt securities including U.S. Treasuries and government agencies, mortgages, corporates, money market instruments and other fixed income securities as deemed appropriate by the manager. In addition, Loomis Sayles may use up to 15% of the high yield portfolio to invest in Yankee bonds.
- Bonds must have a minimum quality rating of B3 (Moody's) or B- (Standard & Poor's or Fitch's) at the time of purchase. The average quality of each portfolio must be Ba3 or better. Unrated U.S. Treasury Bonds and government securities are permissible and will be treated as AAA rated for purposes of average quality calculations.
- Individual security holdings (excluding cash equivalents and fixed income issues either issued or guaranteed by the U.S. Federal Government or one of its agencies) should not exceed 5% of the portfolio, measured at market value at the time of purchase into a specific portfolio.

<sup>1</sup> As measured by a Mercer peer group of funds with a similar investment strategy

<sup>2</sup> As measured by the Mercer Fixed Income Universe

## Cash Equivalents Objectives and Guidelines

**Manager:** *Mellon Trust*

**Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
Each three-year period		Exceed (after fees) the Donoghue Money Market Index + 0.5%.	Exceed (after fees) the CPI + 1%

**Investment Guidelines:**

- Fixed income investments should be in the form of high quality, highly marketable issues.
- The duration of individual securities in the portfolio will not exceed 2.5 years. The duration of the portfolio will be between 1 and 2 years.
- No more than 10% of the portfolio will be invested in one issue (excluding fixed income issues either issued by or guaranteed by the U.S. Federal Government or one of its agencies).
- Fixed income securities should have a minimum quality rating of A, with the exception of 15% of the portfolio which may have a minimum quality rating of BBB.

## Real Estate Objectives and Guidelines

**Managers:** *ING Clarion Real Estate Securities, L.P. (REIT Manager)*

### **Investment Objectives:**

Time Horizon	Performance Standard		
	<u>Universe</u>	<u>Index</u>	<u>Inflation</u>
One market cycle (approx. 4-6 years).	Rank in upper 40% of a broad real estate manager Peer Group. <sup>1</sup>	Exceed the Wilshire Real Estate Securities Index + 1.0%.	
More than one market cycle (approx. 7+ years).			Exceed (after fees) the CPI + 5.9%

### **Investment Guidelines:**

- For the publicly traded REIT portfolio(s), adequate diversification across individual holdings and property sectors should be maintained. Any one issue should be limited to no more than 10% of the portfolio based on market value at the time of purchase.
- Adequate diversification by property type and location should be maintained.
- Real estate investments should be primarily of an equity nature.
- Inflation hedging procedures such as net leases, participating leases and short-term leases should be emphasized.

<sup>1</sup> As measured by a Mercer peer group of commingled real estate investment trusts

## EVALUATION AND REVIEW

The investment consultant will review the performance of the investment managers and their adherence to the restrictions and policies applicable to the assets under management on a semi-annual basis to determine whether the managers have performed in accordance with their stated investment approaches. In addition, the managers will be evaluated on a semi-annual basis to determine their progress toward achieving the investment objectives specified herein.

The investment consultant will bring to the Pension Board's attention any deviation from the objectives and guidelines when such are noted. The annual report will include a review of each manager focusing on their compliance with the objective and guideline expectations.

In the event that a manager fails to comply with the policy guidelines or fails to satisfy the performance expectations, the investment consultant will notify the Pension Board. The consultant will submit a "recommended plan of action" to be considered by the Pension Board at the next appropriate meeting. The "recommended plan of action" will include recommendations for changes in assets managed and a procedure for communications with the managers.

Following the receipt of the "recommended plan of action" the Pension Board will adopt a "plan of action".

On at least an annual basis, each manager will be expected to meet with the Pension Board and to provide:

- A verbal and written review of their investment performance and portfolio structure.
- A synopsis of their key investment decision, their underlying rationale and expected future implications.
- An organizational update
- The manager may be asked to report on a different schedule than described above if the manager underperforms as described on page 10.

On at least an annual basis, the Pension Board, with the assistance of their investment consultant, will review the overall investment program. Key issues reviewed will include:

- Changes in the liability structure of the plan or financial or benefits goals of the Pension Board.
- Current trends and developments in the capital markets and manager community.

- The ongoing appropriateness of the policies included herein.

## **RESPONSIBILITIES OF THE INVESTMENT CONSULTANT**

**Investment Consultant:** Mercer Investment Consulting, Inc.

### **Investment Consultant Responsibilities**

The investment consultant will have the following responsibilities, including those otherwise specified in the Investment Policy and those specified in the Investment Consultant Contract.

- Recommend changes/additions to the current policy after consultation with the Pension Board.
- Annually review and update this Investment Policy document to accurately reflect existing policy.
- Measure the performance of the funds in the aggregate, and the individual portions of those funds allocated to investment managers.
- Attend each meeting of the Pension Board, unless directed otherwise.
- Establish objective and specific standards of performance for each investment manager, and advise the Pension Board regarding any significant changes in the organization of the manager, their process, any legal issues that would affect said manager or any changes in the Investment Consultants rating of such manager, when such items become known to the Investment Consultant.
- Advise the Pension Board on public interest issues that have an effect on the Fund and advise the Pension Board on economic conditions, the effects of inflation and business cycles on investments, and other issues related to potential alternative investment opportunities.
- Recommend policies for the reallocation of earnings and the management of cash.
- Monitor and assess all fees and commissions paid to individual investment managers and monitor and assess investment manager performance regarding the requirements for the best execution for trades in the investment funds.
- Identify the types of investment managers needed to achieve the investment objectives of the Pension Board and conduct searches for such managers.
- Evaluate and/or assist in the selection of a custodian for the pension fund assets.
- Disclose any potential conflicts of interest regarding any Investment Manager recommendation to the Pension Board.





## APPENDIX A

### ABBREVIATED VERSION OF PERFORMANCE STANDARDS

#### Policy Benchmarks

MANAGER	INCEPTION	UNIVERSE BENCHMARK	INDEX / INFLATION BENCHMARKS
<b><u>Large Cap Eq</u></b>			
Boston Partners	8/1/95		
< 1 market cycle (1-3 yrs)		Rank in upper 50% of Mercer LCV P.G.	Exceed (after fees) RU1000 Value + 1%
1 market cycle (4-6 yrs)		Rank in upper 45% of Mercer Equity Univ.	Exceed (after fees) S&P 500 + 1%
> 1 market cycle (7+ yrs)		N/A	Exceed (after fees) CPI + 6.5%
Mellon Russell 1000 Growth	5/31/01		
Any calendar year		N/A	> -0.50% vs. RU1000 Growth
Any 2 year calendar period		N/A	> -0.35% vs. RU1000 Growth
Any 3 year calendar period		N/A	> -0.30% vs. RU1000 Growth
Any 5 year calendar period		N/A	> -0.20% vs. RU1000 Growth
Mellon S&P 500	4/13/95		
Any calendar year		N/A	> -0.50% vs. S&P 500
Any 2 year calendar period		N/A	> -0.35% vs. S&P 500
Any 3 year calendar period		N/A	> -0.30% vs. S&P 500
Any 5 year calendar period		N/A	> -0.20% vs. S&P 500

#### Policy Benchmarks

MANAGER	INCEPTION	UNIVERSE BENCHMARK	INDEX / INFLATION BENCHMARKS
<b><u>Mid &amp; Small Cap Eq</u></b>			
Artisan	6/12/00		
< 1 market cycle (1-3 yrs)		Rank in upper 50% of Mercer MCG P.G.	N/A
1 market cycle (4-6 yrs)		Rank in upper 40% of Mercer MCG P.G.	Exceed (after fees) RU Mid Cap Growth + 1%
> 1 market cycle (7+ yrs)		N/A	Exceed (after fees) CPI + 5.7%
Hotchkis and Wiley	3/1/05		
< 1 market cycle (1-3 yrs)		Rank in upper 50% of Mercer MCV P.G.	Exceed (after fees) Russell MidCap Val + 1%
1 market cycle (4-6 yrs)		Rank in upper 40% of Mercer MCV P.G.	Exceed (after fees) Russell MidCap Val + 1%
> 1 market cycle (7+ yrs)		N/A	Exceed (after fees) CPI + 5.7%
Earnest Partners	3/1/05		
< 1 market cycle (1-3 yrs)		Rank in upper 50% of Mercer MC P.G.	Exceed (after fees) Russell MidCap + 1%
1 market cycle (4-6 yrs)		Rank in upper 40% of Mercer MC P.G.	Exceed (after fees) Russell MidCap + 1%
> 1 market cycle (7+ yrs)		N/A	Exceed (after fees) CPI + 5.7%
Reinhart & Mahoney	3/1/05		
< 1 market cycle (1-3 yrs)		Rank in upper 50% of Mercer MC P.G.	Exceed (after fees) S&P 400
1 market cycle (4-6 yrs)		Rank in upper 40% of Mercer MC P.G.	Exceed (after fees) S&P 400
> 1 market cycle (7+ yrs)		N/A	Exceed (after fees) CPI + 5.7%
Westfield	2/6/01		
< 1 market cycle (1-3 yrs)		Rank in upper 50% of Mercer SCG P.G.	Exceed (after fees) RU2000 Growth
1 market cycle (4-6 yrs)		Rank in upper 40% of Mercer SCG P.G.	Exceed (after fees) RU2000 Growth
> 1 market cycle (7+ yrs)		N/A	Exceed (after fees) CPI + 5.9%
Ariel	11/30/95		
< 1 market cycle (1-3 yrs)		Rank in upper 50% of Mercer SCV P.G.	Exceed (after fees) RU2500 Value
1 market cycle (4-6 yrs)		Rank in upper 40% of Mercer SCV P.G.	Exceed (after fees) RU2500 + 2%
> 1 market cycle (7+ yrs)		N/A	Exceed (after fees) CPI + 5.9%

### Policy Benchmarks

MANAGER	INCEPTION	UNIVERSE BENCHMARK	INDEX / INFLATION BENCHMARKS
<b>Int'l Eq</b>			
Cap. Guardian and GMO < 1 market cycle (1-3 yrs) 1 market cycle (4-6 yrs) > 1 market cycle (7+ yrs)	9/1/94; 4/13/95	Rank in upper 50% of Mercer IE Univ. Rank in upper 40% of Mercer IE Univ. N/A	N/A Exceed (after fees) EAFE + 1% Exceed (after fees) CPI + 6.7%
<b>Int'l Small Cap Eq</b>			
Cap. Guardian < 1 market cycle (1-3 yrs) 1 market cycle (4-6 yrs) > 1 market cycle (7+ yrs)	10/31/97	Rank in upper 50% of Mercer IESC P.G. Rank in upper 40% of Mercer IESC P.G. N/A	N/A Exceed (after fees) MSCI Wld ex-US SC + 1% Exceed (after fees) CPI + 6.9%
<b>Core Fixed</b>			
JP Morgan < 1 market cycle (1-3 yrs) 1 market cycle (4-6 yrs) > 1 market cycle (7+ yrs)	10/1/96; 10/31/95	Rank in upper 50% of Mercer CIG F.I. P.G. Rank in upper 40% of Mercer F.I. Univ. N/A	N/A Exceed (after fees) LB Aggregate + 0.5% Exceed (after fees) CPI + 2.6%
Loomis	6/30/91; 9/1/94	Rank in upper 50% of Mercer CIG F.I. P.G. Rank in upper 40% of Mercer F.I. Univ. N/A	N/A Exceed (after fees) LB Aggregate + 0.5% Exceed (after fees) CPI + 2.6%
Mellon Any calendar year Any 2 year calendar period Any 3 year calendar period Any 5 year calendar period	1/31/96	N/A N/A N/A N/A	> -1.00% vs. LB Aggregate > -0.75% vs. LB Aggregate > -0.60% vs. LB Aggregate > -0.45% vs. LB Aggregate
<b>High Yield Fixed</b>			
Loomis, Sayles < 1 market cycle (1-3 yrs) 1 market cycle (4-6 yrs) > 1 market cycle (7+ yrs)	11/30/82	Rank in upper 50% of Mercer HY F.I. P.G. Rank in upper 40% of Mercer F.I. Univ. N/A	N/A Exceed (after fees) ML High Yield +1.5% Exceed (after fees) CPI + 5%
<b>Real Estate</b>			
ING Clarion 1 market cycle (4-6 yrs) > 1 market cycle (7+ yrs)	1/13/97	Rank in upper 40% of Mercer REITS Univ. N/A	Exceed (after fees) Wilshire REIT + 1.0% Exceed (after fees) CPI + 5.9%

### Policy Benchmarks

MANAGER	INCEPTION	UNIVERSE BENCHMARK	INDEX / INFLATION BENCHMARKS
<b>Private Eq</b>			
ASP and Progress 1 market cycle (12-15 yrs)	10/1/92; 7/1/95	N/A	16% annualized rate of return
<b>Cash Eq</b>			
Mellon Each 3 yr period		N/A	Exceed (after fees) Donoghue MM + 0.5%; Exceed (after fees) CPI + 1%

## **APPENDIX B**

Investment managers should be familiar with Sections 201.24, 203 and 9.05(2)(b) of the General Ordinances of Milwaukee. These sections shall supersede this Statement of Investment Policy whenever the Ordinance and the Investment Policy are in conflict.

Should any investment manager require a copy of Sections 201.24 and 203, he/she may contact Mercer Investment Consulting, Inc.

## **APPENDIX C**

### **NONDISCRIMINATION**

1. All investment managers retained by the Pension Board shall abide by the following provision:

In the performance of work or execution of its duties, the contractor shall not discriminate against any employee or applicant for employment because of race, color, national origin, age, sex or handicap, which shall include but not be limited to the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training including apprenticeships. A violation of this provision shall be sufficient cause for the Pension Board to terminate the relationship without liability for the uncompleted portion of for any materials or services purchased or paid for by the contractor for use in completing its duties.

2. All investment manages retained by the Pension Board shall abide by the following provision:

The contractor agrees that it will strive to implement the principles of equal employment opportunities through an effective affirmative action program, and will so certify when request by the Pension Board, which program shall have as its objective to increase the utilization of women, minorities and handicapped persons, and other protected groups, at all levels of employment in all divisions of the contractor's work force, where these groups may have been previously under-utilized and under-represented. The contractor also agrees that in the event of any dispute as to compliance with the aforesated requirements, it shall be his/her responsibility to show that he/she has met all such requirements.

3. When a violation of this section has been determined by the Pension Board, the violating party shall immediately be informed of the violation and directed to take all action necessary to halt the violation, as well as such action as may be necessary to correct, if possible, any injustice to any person adversely affected by the violation and immediate steps to prevent further violations.
4. The Pension Board shall not retain any investment manager whose name appears on the list of ineligible contractors maintained by the state department of administration because of failure to comply with the provisions of section 16.765, Wisconsin Statutes.
5. A violation by a prime contractor shall not impute to a subcontractor, nor shall a violation by a subcontractor impute to a contractor.

## **APPENDIX D**

### **POLICY AND GUIDELINES FOR BROKERAGE SERVICES**

This policy statement is intended to serve as a guide for investment managers engaged on behalf of the Milwaukee County Employees' Retirement System (the "System") in the course of investing the retirement funds of the System. Each investment manager engaged by the System is responsible to exercise its responsibility prudently and solely in the interests of the participants and beneficiaries of the System. This document outlines the policies and procedures to be considered by investment managers in fulfilling this obligation.

1. General Policies and Principles. The Board requires that these principles guide all transactions:
  - a) Each manager is charged with the responsibility for all aspects of the investment process with respect to assets entrusted to it and consistent with the specific terms of this engagement by the System.
  - b) Each manager is expected to act prudently with respect to decisions to buy or sell securities as well as with respect to the decision who will execute the transaction.
  - c) Each manager shall secure best execution for each transaction it enters on behalf of the System. This requires that each manager execute securities transactions for the System in such a manner that the System's total cost or proceeds in each transaction is the most favorable under the circumstances. Each manager shall consider the full range and quality of a broker's services in placing brokerage, including, but not limited to, the value of research provided as well as execution capability, commission rate, financial responsibility and responsiveness to the manager. Lowest commissions paid in connection with a trade is not determinative of whether the transaction represents the best qualitative execution of the trade.

2. Trading Policies and Guidelines. Consistent with its fiduciary and best execution responsibilities described above, each manager, excluding the collective or commingled fund managers, should use its best efforts to effect 50% of the total commission dollars, 25% for the separately managed international equity manager, generated by buy and sell transactions of exchange traded or electronically traded securities in accordance with the following action and policy of the Board:
- a) The System has negotiated a commission recapture agreement with Lynch, Jones & Ryan, Abel-Noser, and Capital Institutional Services (CIS) under which 50% of commission dollars are refunded to the System, thus lowering trading costs. The Board encourages each equity manager to take these relationships into account in determining best execution.
  - b) The System desires to minimize total transaction costs (commissions plus net price) through the use of electronic trading services.

Each manager, excluding the collective of commingled fund managers, should use its best efforts to effect an additional 10% of the total value of buy and sell transactions in accordance with the following action and policy of the Board:

- a) The Board desires to support the citizens, and organizations, of Milwaukee County. The Board encourages each equity manager to transact business through: (i) broker-dealers based or operating in the financial community in Milwaukee County and/or (ii) national broker-dealers that will result in Milwaukee branch offices receiving financial credit for the transaction.
- b) The Board desires to support the development of minority-owned and women-owned investment organizations. The Board encourages each equity manager to transact business with these organizations.

Each manager, excluding the index fund manager, shall submit to the Board on January 15 and July 15 of each year a written report with respect to brokerage transactions and associated costs. The report should include an accounting of research services obtained in consideration of brokerage activity, along with a brief description of efforts used to comply with each of the policies and guidelines of the Board.

## **APPENDIX E**

### **PROXY VOTING GUIDELINES**

- The Pension Board of Milwaukee County has delegated the responsibility for voting proxies to their investment managers. Each investment manager has the responsibility for voting proxies in the best interests of plan participants. Proxies of collective or commingled funds will be voted in accordance with the fund's proxy voting policies and procedures.
- By June 30 of each year, each investment manager will supply to the Pension Board and its Investment Consultant an acknowledgement that it is responsible for voting proxies in the best interests of plan participants, a copy of the investment manager's proxy voting procedures and guidelines and a list of how the investment manager voted on all proxy issues during the 12 months preceding the report.